



# Understanding decoupling in the relationship between social enterprises and impact investors: an exploratory study

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# Abstract English

**Title:** Understanding decoupling in the relationship between social enterprises and impact investors: an exploratory study

**Keywords:** Social Enterprise, Impact Investing, Decoupling, Social Entrepreneurship

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Social enterprises are increasingly required by impact investors to provide reliable indicators about their societal impact in order to get funds to support their activities. However, measuring social impact is extremely complex. In this exploratory thesis, I study the drivers leading to decoupling of impact measurement procedures in the relationships of social enterprises and impact investors. To do so, I conducted semi-structured interviews with both social enterprises and impact investors, used field notes from group discussions and industry reports. The data shows that the motivation for impact measurement, the requirements for metrics as well as impact measurement procedures and the characteristics of investors have a significant influence on the risk of decoupling. Furthermore, I show that due to the strong and transparent relationship between social enterprises and investors, organisations rather occur in means-end than policy-practice decoupling. While policy-practice decoupling is characterized by symbolic implementation of policies, organisations occurring in means-end decoupling implement policies, without them influencing their activities and outcomes. Based on my results I build a process model that helps to get a better understanding of decoupling in social enterprises and to assess and reduce the risk of decoupling.

## Resumo Português

**Título:** Entender a dissociação na relação entre empresas sociais e investidores de impacto social: um estudo exploratório

**Palavras-chave:** Empresas Sociais, Investidores de Impacto Social, Dissociação, Empreendedorismo Social

**Autor:** Malte Hofmann

As empresas de cariz social são cada vez mais solicitadas pelos investidores de impacto social a providenciarem indicadores fidedignos sobre o seu impacto na sociedade, com o intuito de obterem fundos que suportem as suas atividades. Contudo, medir o impacto social é extremamente complexo. Nesta tese exploratória estudo os fatores que levam à dissociação dos procedimentos de medição de impacto social na relação entre as empresas sociais e os investidores de impacto social. Para tal, conduzi entrevistas semi-estruturadas junto de empresas sociais e investidores de impacto social, usei também notas recolhidas em discussões de grupo e relatórios de indústria. Os dados mostram que a motivação para medir o impacto social, os requisitos para as métricas, assim como os procedimentos de medição de impacto e as características dos investidores influenciam significativamente o risco de dissociação. Ademais, mostro que, devido à relação forte e transparente entre as empresas sociais e os investidores, as organizações preferem ocorrer em dissociação *means-end*, do que em *policy-practice*. Enquanto que a dissociação *policy-practice* é caracterizada pela implementação simbólica de políticas, organizações que ocorrem em dissociação *means-end* implementam políticas sem que estas influenciem a suas atividades e resultados. Com base nos meus resultados, construí um modelo de processos que ajuda a compreender melhor a dissociação em empresas sociais e a avaliar e reduzir o risco de dissociação.

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## Glossary

GIIN	Global Impact Investing Network
EVPA	European Venture Philanthropy Association
WISE	Work integration social enterprise
KPI	Key performance indices



# 1. Introduction

During the last decades our society experienced a change towards more societal and environmental responsibility on a private as well as corporate level, while governments and non-profit organisations appear to be insufficient in addressing the worlds social problems on their own (Global Impact Investing Network, 2010). Easier access to information through digital media helps consumers to asses company's sustainability efforts and to avoid those who engage in corporate misbehaviour. Furthermore companies start social oriented initiatives and sustainability program to differentiate themselves from the competition and win customers (Santos, Pache, & Birkholz, 2015).

All this leads to the increased growth of "social enterprises" as organisations that combine a social mission with traditional commercial activities to sustain their activities and therefore combine aspects of common for-profit and non-profit organisations (Santos, 2012). While this hybrid nature of social enterprises can constitute advantages as it opens up the organisation to the commercial as well as social sector, it also faces social enterprises with unique challenges (Ebrahim, Battilana, & Mair, 2014). Those challenges are especially apparent in the acquisition of resources and legitimacy. Not only are social enterprises required to report on their financial performance but also on their social performance and impact metrics to secure investments and proof their legitimacy to society (Battilana & Lee, 2014).

Regarding the acquisition of resources, alongside social enterprises, so called "Impact Investors" gained attention during the last years. They bridge the field between traditional investors and grant giving organisations by aiming for financial returns and social or environmental impact at the same time (Höchstädter & Scheck, 2015). Therefore impact investors can provide financial capital to social enterprises which they would not be able to require through the mainstream capital markets (Mendell & Barbosa, 2013). Alongside the goal to achieve positive impact through their investments also comes the call for reporting procedures to proof the efficiency of the social enterprises. While financial performance measurement standards are well established this is not the case for impact measurement. This leads to diverse requirements on how to measure a social enterprises impact and on what metrics to measure (Ebrahim & Rangan, 2014).

Due to the external pressure and the diverse requirements by stakeholders, social enterprises are especially prone to decoupling. Decoupling means that the organisations only formally

implements procedures required by external stakeholders but does not integrate them into their actual operations (Pache & Santos, 2013). Therefore impact metrics are measured which do not match the targeted impact in order to secure a funding and the results are not reflected back into the daily operations (Ebrahim et al., 2014).

Therefore, this thesis focuses on the decoupling of impact measurement procedures and the question **“What drivers lead to decoupling of impact measurement procedures in the relationship between social enterprises and impact investors?”**.

In order to answer this question, I interviewed both social enterprises and impact investors and compared the results with the academic literature. The thesis is structured as follows. First, the relevant academic literature on the topic of social enterprises, impact investing, impact measurement and decoupling will be reviewed to show the background and connections of those. Second, the methodology will be introduced and the sampling, collection as well as analysis of the data will be discussed. In this part, also the organisations which have been interviewed will be shortly introduced. Third, the findings will be presented. We start with the organisations which did not show signs of decoupling to then show the differences with the social enterprises that showed signs of decoupling. Afterwards the findings from the social enterprises will be underlined with the findings from the impact investors. Lastly the model will be introduced in the discussion and the contribution and limitations are presented to then finish with the limitations and conclusion.

## 2. Literature review

### 2.1 Social Enterprises

The research on social enterprises is a quite new but developing field in management research. According to Battilana & Lee the number of articles on social enterprises published in peer reviewed journals increased from 37 in 1997 to more than 14.000 in 2012 (Battilana & Lee, 2014).

Social enterprises follow a dual mission by combining commercial as well as social welfare logic in their goals and activities (Mair, Mayer, & Lutz, 2015). They are organisations that are trying to solve societal problems while retaining their operations through commercial activities (Battilana & Lee, 2014; Mair, Battilana, & Cardenas, 2012; Santos et al., 2015). This is in contrast to traditional organizations with a commercial focus that try to obtain a maximum financial return to distribute to their shareholders on the one hand and non-profit organizations which put their beneficiaries first and rely on grants to sustain their activities on the other hand (Mair et al., 2015). By following this two different institutional logics, social enterprises are broadly characterized as hybrid organizations (Doherty, Haugh, & Lyon, 2014; Mongelli, Rullani, Ramus, & Rimac, 2019; Santos et al., 2015) and Battilana and Lee even describe them as an ideal type of hybrid organization. While this organisational form presents the chance to combine the best of both worlds (Santos et al., 2015) it also brings along several challenges (Mongelli et al., 2019). Due to the hybrid nature of social enterprises, their success is defined not only by financial figures but also social outcomes. Those dual objectives are not always aligned and are often even contradictory making it difficult to find an optimal balance between them (Ebrahim et al., 2014) leading to internal and external tensions (Battilana & Lee, 2014). Especially when commercial logics gain dominance, in order to sustain financial operations or to please shareholders, social enterprises are in danger of losing sight of their social missions, a phenomenon called mission drift (Ebrahim et al., 2014). Smith, Gonin & Besharov divide the tensions which potentially lead to mission drift into the four categories organizing, belonging, learning and performing tensions, which shall be briefly described in the following (Smith, Gonin, & Besharov, 2013).

**Organizing tensions** emerge particularly from the organisation itself. Due to the contradictory institutional logics the social enterprise is faced with, decisions regarding the legal form of the enterprise and the question on which people to hire (Pache & Santos, 2013). Should employees

rather have knowledge in the social field to advance the social mission of the enterprise or in the commercial field to help scale the organization?

The question for commercial or social logic also applies to **belonging tensions** which are more concerned with the identity of an enterprise. It can create tensions between employees who potentially identify more with one or the other logic (Battilana & Dorado, 2010) due to their vision for the organisation or professional background. But the dual identity can also lead to complications in the perception of external stakeholders. Traditional businesses might doubt that the social enterprise can deliver the quality of full profit organizations while non-profit organizations might question their legitimacy (Smith et al., 2013).

**Learning tensions** in contrast addresses tensions regarding different time horizons. Those can be best described as short-time and long-time goals. On the one hand social enterprises should try to scale their operations and grow financially according to commercial logics which is mostly addressed by short time goals. Social mission outcomes on the other hand usually address a longer time horizon and can be jeopardized if enterprises push for growth too fast, eventually leading to a loss in legitimacy towards social stakeholders (Smith et al., 2013)

This is also partly related to **performing tensions**. Performing tensions emerge mostly through divergent outcomes. Goals and metrics vary whether a more social or commercial perspective is chosen. Success in the social mission could be improved by giving up partly on financial goals and vice versa. In extreme cases the prioritization of either social or commercial goals can lead to the financial ruin on the one hand or detaching from the social mission and therefore mission drift on the other (Smith et al., 2013). Furthermore, performing tensions can occur when external stakeholder have conflicting or inconsistent demands in terms of measuring impact or when different stakeholders require divergent metrics (Smith, Lewis, & Tushman, 2011). Aligning demands and operations can get even more complex, when the interests of investors contradict the needs of beneficiaries (Ebrahim et al., 2014). This might for example be the case in the field of education. An easy to measure KPI that might be required by investors is the number of beneficiaries that received education through the social enterprise. Therefore, to secure the funding an enterprise could be motivated to provide their service to as many beneficiaries as possible while in order to create a positive impact it would be better to only teach small groups more extensive. The challenge presented here, is that investors might prefer to receive reports on quantifiable numbers that are easy to measure and analyse (Ebrahim & Rangan, 2014). This is because quantifiable metrics can be collected in the short term. True

impact on the other hand is often only achieved over a longer time period. If quantifiable metrics take the dominant role, social enterprises run in danger of favouring business objectives in the long term since they are easier to measure (Smith et al., 2013).

Those tensions which result out of the hybrid character of social enterprise furthermore complicate the acquisition of external resources and as such especially financial capital (Battilana & Lee, 2014). While financing vehicles for full profit and non-profit organisations have evolved over a long time, this is not the case for hybrid organizations such as social enterprises (Battilana, Lee, Walker, & Dorsey, 2012). While the hybrid nature of social enterprise opens up possibilities to make use of both commercial and non-profit funding mechanisms, they also face challenges when approaching each of them separately (Mongelli et al., 2019). Traditional investors might see social enterprises as more risky investments due to their conflicting institutional logics and the possibility that the management might prioritize the social mission over financial gains in the future (Battilana & Lee, 2014). On the contrary foundations and venture philanthropist usually do not permit distribution of profits to owners which might lead to conflicts with the enterprises commercial activities (Battilana et al., 2012). During the last decade this gap was filled by so called impact investors which besides financial returns also aim to achieve a social impact with their investments and therefore seem to fit the needs of social enterprises.

## 2.2 Impact Investing

The term impact investing originated out of a meeting organised in 2007 by the Rockefeller Foundation. This meeting was used to gather leaders from the development, financial and philanthropy sector, to develop a common vocabulary and starting point for investing for societal impact (Harji & Jackson, 2013). The most commonly used definition of impact investing also used by Hehenberger, Mair & Metz (Hehenberger, Mair, & Metz, 2019) defines impact investing as “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.” (Global Impact Investing Network, 2020). Therefore Impact investing breaks with the traditional view on allocation of capital, in which capital is allocated either through risk adjusted investments which aim for the highest possible returns without taking societal outcomes into consideration and grants and donations aimed at maximizing societal impact (Global Impact Investing Network, 2010). Höchstädter & Scheck point out that due to similar definitions impact investing and socially responsible investments could be mistaken for one and each other (Höchstädter & Scheck,

2015). While socially responsible investments are characterized by the integration of non-financial concerns of several kind (Sandberg, Juravle, Hedesström, & Hamilton, 2008), impact investing goes beyond this view and more proactively aims for societal outcomes (Höchstädter & Scheck, 2015). Impact Investing is part of a broader global movement in market economics which is aiming for more ethical and social business practices (Dacin, Dacin, & Tracey, 2011) which also led to growing customer social responsibility as well as an ethical consumerism movement (Höchstädter & Scheck, 2015). Since it presents a relatively new topic in research, not many papers can be found about impact investing. Therefore, this thesis also incorporates reports and guidelines of practitioners such as the impact investing organization's "The Rockefeller Foundation", the "Global Impact Investing Network" (GIIN) and the "European Venture Philanthropy Association" (EVPA). During the last decade impact investing experienced a substantial growth. From 2014 to 2019 the sum of impact investing assets ,managed by impact investors who participated in the yearly Impact Investor Survey from the GIIN, increased from 60 billion USD to more than 500 billion USD in 2019 (Global Impact Investing Network, 2019).

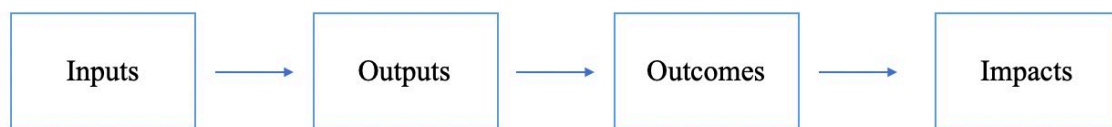
Unlike the definition for impact investing, methods to measure the impact of investees are rarely researched in the existing literature. Harji and Jackson present regarding this the Impact Reporting and Investment standards (IRIS) and Global Impact Investing Rating System (GIIRS) (Harji & Jackson, 2013). While both systems were introduced to standardize efforts in impact measurement no consensus is presented on how it should ideally look like. In the following paragraph we look more into the theory about impact measurement from a social enterprise perspective.

## 2.3 Impact Measurement

Just like all normal enterprises, social enterprises are required to measure their performance for internal as well as external stakeholders (Bagnoli & Megali, 2011). While traditional for-profit organisations mostly focus on financial performance, social enterprises need to measure social performance as well. Measuring financial performance is usually straight forward. Accounting tools and metrics are well established and standardized making it easy to compare and benchmark with other organisations (Ebrahim et al., 2014). For social performance measurement in contrast, no common and standardized metrics and procedures have been developed (Ebrahim et al., 2014). Especially the different sectors, social enterprises are working in, such as education, health or environment, make it hard to define comparable benchmarks

(Ebrahim et al., 2014). Furthermore, if we look at the terminology used around social performance management, similar to the term social enterprise or impact investing, a clear definition is missing. While some use the term impact measurement or evaluation for the overall social performance of a social enterprise (Molecke & Pinkse, 2017) others use the term impact only as the last step that an social enterprise can reach with its activities (Ebrahim & Rangan, 2014).

More specifically Ebrahim & Rangan and Bagnoli & Megali describe the basic logic model that was originally developed for the United States Agency for International Development (USAID) (Bagnoli & Megali, 2011; Ebrahim & Rangan, 2014). The following table shows the four main components of the logic model including inputs, outputs, outcomes and impact.



*Figure 1 Logic impact model*

While Ebrahim and Rangan show activities as a separate component, Bagnoli and Megali include it in outputs. In this model, inputs describe the resources that are contributed to the activities of the social enterprise such as human resources and funds. The outputs are the actual activities and countable products, or services distributed. This could be number of beneficiaries reached or hours of workshops held. Outcomes then present the effect the outputs had on the beneficiaries. How did a workshop or training influence their future incomes etc. Lastly impacts are seen as long term benefits the activities had on the wider community (Bagnoli & Megali, 2011). Since the term's social performance measurement and impact measurement are used quite interchangeable throughout the literature, I will use the term impact measurement as it is also the dominant term used by practitioners.

Regarding the motivation to measure social impact, two main factors are presented in the literature. According to Nicholls social enterprises adapt impact measurement practices mainly to improve performance, access resources and build legitimacy towards investors (Nicholls, 2009). Lall describes it in her paper as “Measuring to Improve versus Measuring to Prove” (Lall, 2017). Measuring to improve presents an internal motivation. Just as with financial performance tools, social enterprises try to better align their activities with their social mission to maximise the positive impact for beneficiaries in the long term (Lall, 2017). Measuring to

prove however is related to the more complex acquisition of resources social enterprises are faced with and in which context proving legitimacy is key to secure funding (Nicholls, 2009).

The reviewed literature shows that in contrary to financial performance measurement, social performance measurement is significantly more complex (Nicholls, 2009). Especially when several investors are involved, social enterprises cannot rely on commonly adapted reporting standards, but instead different metrics might be required from each investor. This leads to increasing external pressure on the enterprise (Ebrahim et al., 2014) and eventually to the decoupling of impact measurement practices.

## 2.4 Decoupling

As described before, social enterprises are more and more exploited to external pressure by impact investors, pressing them to achieve social outcomes at the same time as earning financial returns. Studies have shown that under those two competing institutional logics organizations tend to decouple their formally introduced policies from their organizational operations (Pache & Santos, 2013). Therefore policies are implemented as symbolic gestures in order to fulfil external requirements while keeping operations as usual, in order to gain legitimacy (MacLean & Behnam, 2010). According to Crilly, Zollo & Hansen decoupling not only occurs on purpose but also due to complex requirements and uncoordinated processes (Crilly, Zollo, & Hansen, 2012).

Social enterprises are especially prone to decoupling due to their hybrid nature, often leading to competing logics between commercial and social characteristics (MacLean & Behnam, 2010). Besides, the previous discussed complexity of measuring the impact of social enterprises favours decoupling, as it leads to a certain lack of transparency. In more transparent cases, decoupling can be more easily identified and therefore prevented (Wijen, 2014). In contrast to the mainly discussed policy-practice decoupling, Bromley & Powell differentiate between policy-practice and means-end decoupling. According to them the mostly discussed form of policy-practice decoupling is characterized by the symbolic implementation of policies which might even be contradictory to the organisations goals without interfering with daily practices. Means-end decoupling on the other hand occurs when implemented policies have actual impact on the organizational operations but do not affect the organizational outcomes (Bromley & Powell, 2012). This could also be the case when organizations adopt new goals due to external pressure which are not aligned with the intended means-end. This kind of decoupling occurs specifically when operational practices, which are not contributing to the organizational goals,



are imposed by external institutions. According to Bromley and Powell a shift from policy-practice decoupling to means-end decoupling is conceivable caused by the continuously changing factors around transparency and accountability giving less room for symbolic implementation of policies (Bromley & Powell, 2012).

### 3. Methodology

The thesis is written as a qualitative inductive approach, studying the relationships of social enterprises and impact investors with a focus on impact measurement. A qualitative approach is well suited to build theory in fields which received little attention in academic research (Besharov, 2014). It allows for an in-depth exploration of a new research field such as social entrepreneurship in contexts where quantitative methods of counting or measuring cannot easily be performed (Hammarberg, Kirkman, & de Lacey, 2016). By directly interacting with actors of the field through semi-structured interviews or field observations, it allows to obtain first-hand knowledge which then can be reflected back into academic theory (Taylor, Bogdan, & DeVault, 2015). Therefore, a qualitative approach is well justified as the social entrepreneurship field constitutes a rather new field of research which developed quickly and incessantly over the last years. Furthermore, the concept of decoupling was given comparably little attention in this academic field.

#### 3.1 Data Collection

For the purpose of this thesis I used three different sources of data. Semi-structured interviews, group discussions and industry reports. I conducted eight semi-structured interviews and collected field notes from several group discussions at the annual EVPA and the Impact Fest conference. The semi-structured interview is well suited for this kind of research since it allows the researcher to react to the participants' answers and therefore direct the interview into different directions or further develop specific areas (Galletta & Cross, 2013). Furthermore, it allows participants to freely express their thoughts in their own language, allowing for more elaborate responses compared to structured interviews (Qu & Dumay, 2011). The interviews followed an interview guideline (see Appendix A,B) that was slightly adapted based on the interview partner and already gained insights from previous interviews. Flexibility in the interview questions can help in uncovering new concepts and theories during the research (Gioia, Corley, & Hamilton, 2013). In order to use the data from the interviews I anonymized all organisations. Additionally, I used group discussions from the EVPA annual conference and Impact Fest as additional data. I recorded all group discussions and took field notes. The discussion rounds presented the opportunity to get insights from various actors of the field at the same time, with a lower risk of introducing a bias by the author (Qu & Dumay, 2011). In addition to the interviews they helped me in getting a more comprehensive understanding of the field of social entrepreneurship and impact investing. By coincidence, an investor of *Food*

*Waste* participated in one of the discussion rounds, leading to valuable insights about the organisation from an investors point of view. Industry reports, together with the literature review, served as a first set of data to develop the interview guideline. Furthermore, they helped me in getting an understanding of the industry standards and enabled me to follow up on industry specific topics during the interviews. The following table gives an overview of the different data sources.

### Collected Data:

#### a) Semi-structured interviews

#### *Social Enterprises:*

<i>Credential</i>	<i>For / Non-Profit</i>	<i>Investment Type</i>	<i>Field of Activities</i>
<i>Refugees</i>	Non-Profit	Impact Bond	The organisation helps integrate refugees and tries to bring them into jobs.
<i>Children</i>	Non-Profit	Donations/Grants	Runs projects for children in need.
<i>Coding</i>	For-Profit	Impact Bond/ venture capital	Provides for coding classes for unemployed people to lead them back into jobs and develops coding learning software for kids.
<i>Food Waste</i>	For-Profit	Venture Capital	Produces technical products using AI technology in order to reduce food waste.

#### *Impact Investors:*

<i>Credential</i>	<i>Organisation Type</i>	<i>Investment Type</i>	<i>Field of Activities</i>
Blue	Foundation	Grants	Foundation which invests in non-profit projects and social enterprises.
Red	Venture Philanthropy Organisation	Loans	The organisation grants loans to early stage social enterprises and supports through mentoring.
Yellow	Government	Impact Bond	Local government which introduced the first impact bond in their region to support social equality.
Green	Impact Fund	Loans	Impact fund which grants loans to small social enterprises in the field of clean energy.

## b) Group Discussion

<i>Id</i>	<i>Topic</i>	<i>Event</i>
1	Making sure your investment delivers the right social impact.	EVPA Annual conference
2	The Brabant Outcomes Fund: pay for multiple-value to scale enterprises with societal impact!	EVPA Annual conference
3	How to set up an Impact Fund?	EVPA Annual conference
4	Lockstep model in social investment - where and how to find the 'sweet spot'?	EVPA Annual conference
5	How to measure impact? First steps towards managing, confirming and communicating your value creation	Impact Fest

## c) Industry reports

<i>Reports/ Paper</i>
▪ Measuring and managing impact - A practical guide / EVPA
▪ 2019 Annual Impact Investor Survey / GIIN
▪ Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry / The Rockefeller Foundation

*Table 1 Data Overview*

## 3.2 Sampling

In order to get insights from both the enterprise as well as investor site, I decided to interview four organisation each, with a dedicated interview guideline for both groups. Due to the variety of social entrepreneurial models and the adaptation of different kind of legal forms as well as investment types (Mair et al., 2012) the goal was to interview a diverse range of enterprises and investors to get insights from as many perspectives as possible. Therefore overall 20 organisations were approached for interviews and eight interviews were conducted.

Social enterprises where chosen mainly on the two criteria profit-orientation and investment type. Even though all social enterprises follow a social mission, their legal status might differ between full-profit and non-profit. This is also the case for the chosen social enterprises as *Refugee* and *Children* are operating as non-profit organisations while *Coding* and *Food Waste* have a full-profit legal status. Therefore, while all four organisations are social mission driven, the non-profit social enterprises follow more social principles while the full-profit organisations show a higher commercial orientation.

Organisation *Refugee* was chosen as it can be characterized as a Work Integration Social Enterprise (WISE), which are often used for research in this field. WISE's are generally organisations of private nature that help unemployed beneficiaries of marginalized groups to get employed (Ramus, Vaccaro, & Brusoni, 2016). In the case of *Refugee*, the focus lies on the integration of refugees into society by providing them job opportunities. *Refugee* is currently financed through an impact bond by the local government with a running time of three years.

Organisation *Children* is a non-profit organisation operating worldwide to support disadvantaged children in the fields of health and education. *Children* was chosen as members of the organisation mentioned during the annual EVPA conference that they try to adopt more and more social entrepreneurial practices to secure funding as the requirements of investors are becoming more demanding. Currently *Children* relies on money from governmental institutions, foundations and private donors.

*Coding* however has a higher degree of commercial orientation. The organisation operates in two sectors. One is providing coding classes to unemployed people in order to make them job ready for IT-jobs while the other is providing an educational software to schools, with which children can learn first coding skills with the goal of improving analytical and math skills. *Coding* is financed both through private investors as well as impact bonds for specific projects.

*Food Waste* is the social enterprise which shows the highest profit orientation of all four. The organisations mission is to reduce food waste in industrial kitchen with modern technology. Through intelligent trashcans, utilising artificial intelligence, the food wasted can be analysed and based on the created reports the food purchasing and processing can be optimised to create less waste. As investors, *Food Waste* works with private investors and an impact first venture capital fund. Regardless of the degree of profit orientation, all organisations have a clear impact driven mission characterizing them as social enterprises.

On the investor site the goal was to interview organisations that invested in the beforehand mentioned social enterprises. This was only possible in the case of the social enterprise *Refugee* and Investor *Yellow*. The other interview partner where chosen based on the criteria organisation type and type of investments they make, to cover different impact investing methods. *Blue* is a traditional foundation, supporting programs of all different backgrounds. Money is provided mostly through grants and more and more money is located to social entrepreneurial projects. Projects reach from early stage to well established projects which already run for several years. In contrary *Red* invests mostly in early stage social enterprises.

As a venture philanthropy organisation *Red* provides loans which also include coaching and mentoring for the enterprises. Organisation *Yellow* was chosen to get insides from a governmental perspective on impact bonds. The interview was conducted with a policy advisor of a local government who was mainly responsible for the implementation of an impact bond that was created to support local social enterprises working on equal opportunities in society. The impact bond runs for three years in its first round. One of the social enterprises taking part in the impact bond is the interviewed social enterprise *Refugee*. Lastly organisation *Green* was interviewed as an impact fund that invests into clean energy and water projects by providing loans. Therefore, the focus lies primarily on environmental projects which, after being implemented, also have a positive impact on the local population.

Regarding the discussion rounds, participation was decided based on the topics available, with a focus on impact measurement and investment types. Furthermore, the participant list was taken into consideration, so that in all discussion rounds representatives of relevant organisations were taking part to gain valuable insights. Therefore, no direct selection of organisations was possible but the nature of both conferences, with one dedicated to social enterprises (Impact Fest) and the other to impact investing (EVPA annual conference), allowed for insightful discussions.

### 3.3 Data Analysis

For the data analysis I followed the tenets of grounded theory (Besharov, 2014) and the Gioia Methodology (Gioia et al., 2013). During the data collection process, I continuously analysed the collected data to gain insights for the further process. During the analysis I followed three recursive steps. I started by analysing the data for empirical themes and secondly formed conceptual categories and aggregated them into variables. Lastly I built a theoretical process model based on the aggregated variables (Gioia et al., 2013). Throughout the analysis process I used the software MAXQDA2020 to transcribe the interviews, code the raw data and group and aggregate codes (see Appendix C for a coding example).

#### 3.3.1 Step 1: Data exploration and empirical themes

In the first step, I collected data from the interviews, group discussions and reports and transcribed them to get an extensive overview of the data. Afterwards I coded the interviews (Strauss & Corbin, 1998) and built empirical themes for both social enterprises and impact investors. During the coding, I looked for themes that were matching in the different transcripts and aggregated them accordingly. Regarding social enterprises, I soon noticed that two organisations showed signs of means-end decoupling (Bromley & Powell, 2012) while the others did not. Both groups differ especially in the selection of their investors and their internal drivers for impact measurement. Analysing the impact investor interviews, it became clear that all four of them were concerned about the social mission of their investees and that they are rather impact-oriented than profit-oriented. While I identified first patterns of signs related to decoupling, the themes did not allow for themselves to build a model around them. Therefore, I analysed the data again and used academic literature to organize the themes and group them in more theoretical conceptual categories.

#### 3.3.2 Step 2: Conceptual categories and aggregation of variables

In the second step I grouped the empirical themes from step one and formed conceptual categories. By going back and forth between data and literature, I then aggregated the conceptual categories into variables. Figures 2 and 3 show an overview of the Data Structure.

For the social enterprises I developed the three variables *motivation*, *requirements* and *investor characteristics*. *Motivation* is related to the drivers leading to impact measurement. The categories differed in internal and external drivers leading to impact measurement. While internal drivers were mostly related to either the social mission (Battilana & Lee, 2014) or

impact measurement as a tool to improve operations and impact of the organisation, external drivers were related to investor requirements to secure funding. As a second variable I created *requirements*. The data showed that there were big differences in requirements for impact measurement by investors. While some investors required a high degree of complexity others went with the already existing procedures or supported the social enterprise during the development of metrics. Furthermore, the requirements were influenced by the internal capabilities of the social enterprises in terms of impact measurement. As a last variable, *Investor characteristics* aggregates the alignment of investors with the social enterprises, the diversity of investors and the number. During the interviews the organisations expressed whether they felt that their investors were aligned with their social mission and if they perceived the number of investors as a challenge for their impact measurement procedures.

For the impact investors I created the variables *commercial orientation*, *social mission driven* and *allocation of resources for metrics development*. The data showed that more commercial oriented investors tend to require predetermined metrics for impact measurement. Due to rather standardised investment procedures no customisation of impact reports is made. In contrast the analysis showed more flexibility on this matter by *social mission driven* investors. For them impact is rated over financial returns and the interviewed organisations described themselves as “impact first”. Lastly *Allocation of resources for metrics development* describes both the provision of expertise and financial resources towards impact metric development and implementation which were used by the interviewed investors to assure alignment of impact measurement and social mission.

### 3.3.3 Step 3: Process model development

After aggregating the conceptual categories into variables I used those variables to develop an empirical grounded model (Gioia et al., 2013) that explains the influence of the aggregated variables on the risk of decoupling for social enterprises. It became clear that both social enterprises and impact investor can influence the risk of decoupling through their actions as well as relationship towards each other. Therefore, all variables were combined in a process model (see Figure 4).



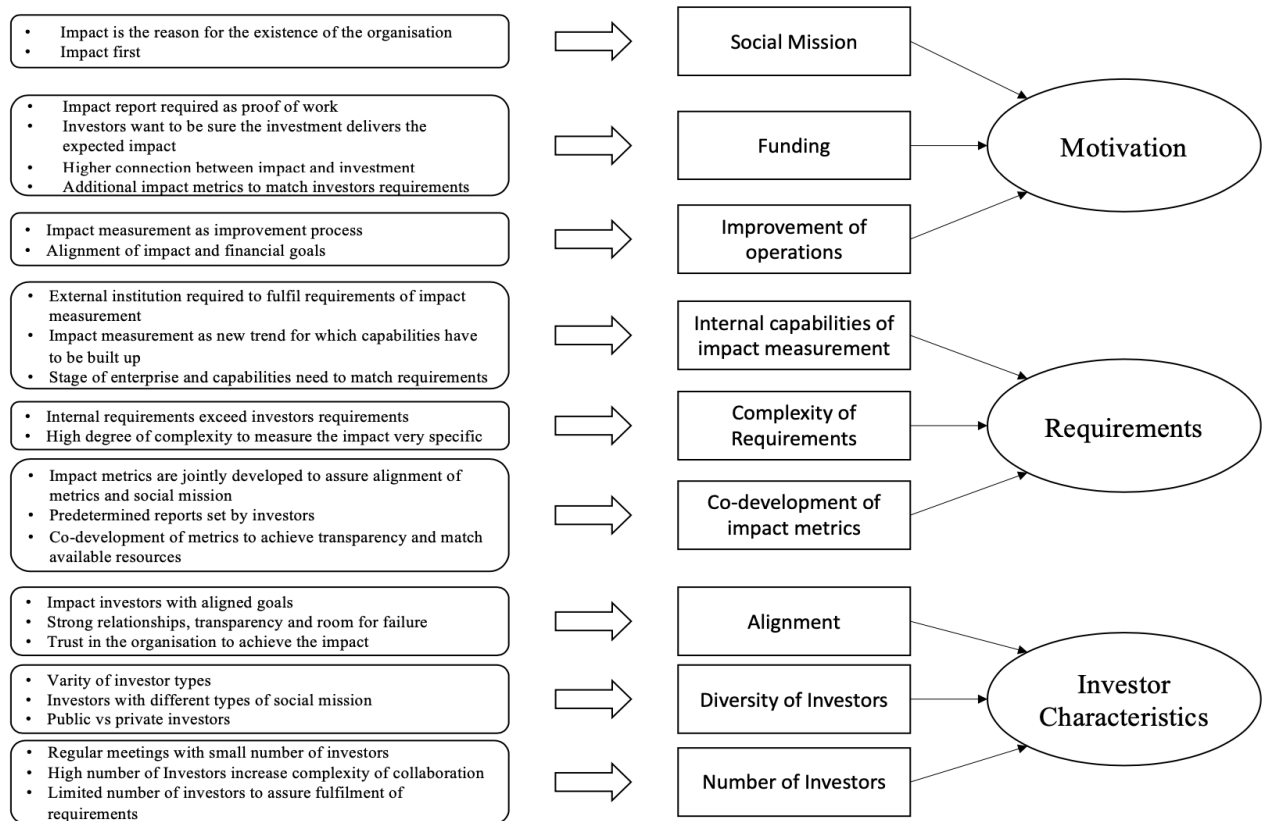


Figure 2 Data structure Social Enterprises

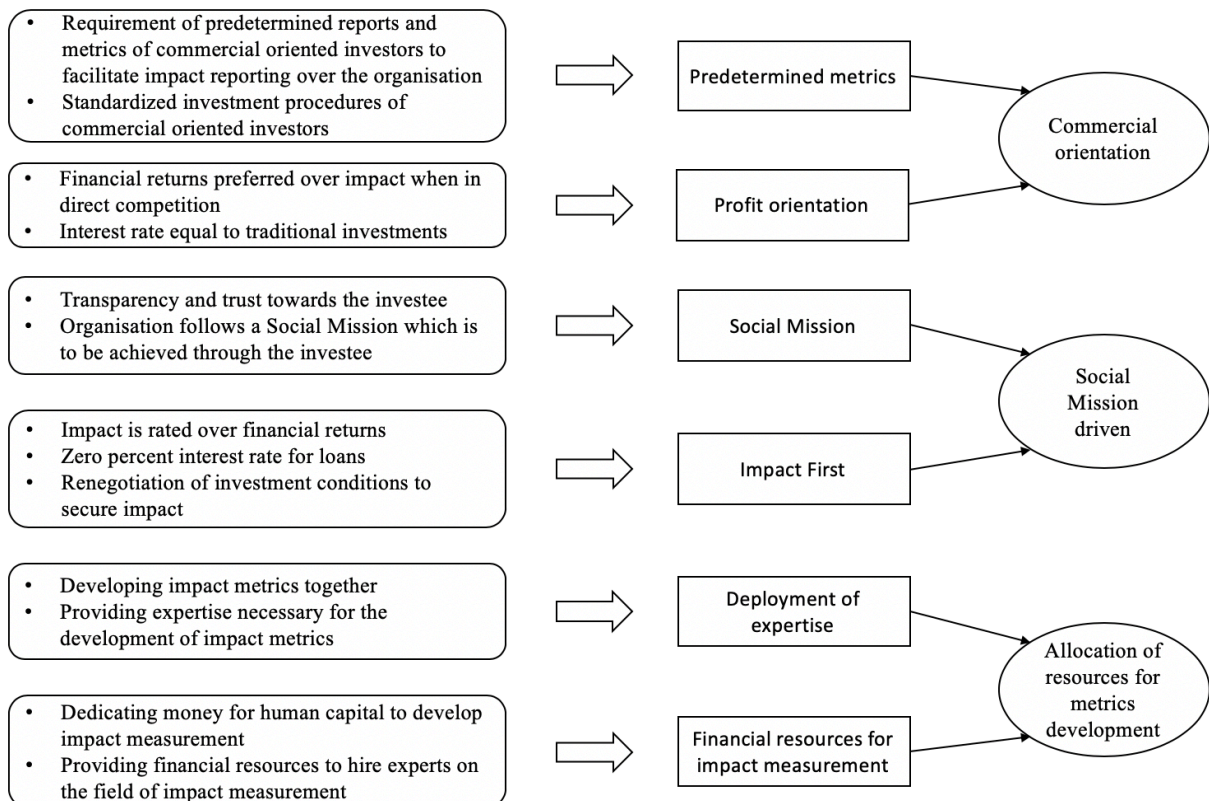


Figure 3 Data structure Impact Investors

## 4. Findings

The following chapter describes the findings discovered through the interviews. It is structured in three parts starting with the enterprises in which no signs of decoupling were observed and continues with those in which signs of decoupling were identified. In the third part the investor perspective is taken into consideration.

### 4.1 Organisations showing no signs of decoupling

During the interviews *Refugee* and *Food Waste* showed no signs of decoupling in their organisation. It stands out that both organisations show the same characteristics on the previously described variables, even so one is acting rather on the non-profit site while the other is rather profit-oriented. To further understand the logic behind both organisations they will be thoroughly discussed in the following and their similarities will be shown.

#### **Key performance indicators (KPI's)**

Both *Refugee* and *Food Waste* are using KPI's for impact measurement.

“We have KPI's and we have OKR's. So, on the KPI side of things, we are using those to measure our key performance across certain metrics. So, the amount of food that is wasted etc.” (*Food Waste*)

“We use KPI's for our impact performance mainly. We have several coaches in our organisation that give guidance to our refugees. And they have specific targets about how many refugees they have to have in their teams and how many they have to bring into jobs.” (*Refugee*)

In the case of *Food Waste* several KPI's were set up around the business model which are mostly quantitative. The number of devices installed in kitchens, how much time the devices are running and how much food is saved. Since the number of devices installed and the amount of food saved is directly correlated, financial performance and impact go hand in hand. The more devices are sold and therefore revenue is generated, the more food is saved and therefore impact is created.

*Refugee* on the other hand uses both quantitative and qualitative KPI's. The most important KPI's required by their investors are the number of refugees that found a job through their program and *Refugee* receives money directly related to this number. Additionally, they use qualitative KPI's to measure soft skills of the participants at the beginning of the program, during the program and after the program to assess the long term impact their program has on the beneficiaries besides finding a job.

## Motivation

Regarding the motivation for impact measurement both *Refugee* and *Food Waste* show high internal motivation. Therefore, impact measurement procedures were not primarily implemented due to external pressure by investors but due to internal motivation.

“The impact measurement processes are a way of making sure that as we get bigger as an organisation, our departments are pulling in the same direction to achieve our overall objective, our kind of NorthStar objective, which is to save 1\$ billion worth of food by 2025.” (*Food Waste*)

“The requirements of the investors are not the main reason that we measure and communicate our impact. I think it is really good that we made financial agreements based on our impact because that helps us to focus on our impact. But the main reason we measure our impact is that we want to know if we do a good job or not. Because that is the reason why we exist.” (*Refugee*)

In both organisations the KPI's for impact measurement are not solely used to measure the impact but are also important indicators for the organisation's operations. This is due to the high alignment of impact and business model. In both cases good performance on the impact site relates automatically to high performance financially leading to a direct correlation between both. This kind of direct correlation between impact and financial performance is commonly described as “Lock-step” model (Holland & Lam, 2014). Besides the mutual reinforcement of impact and financial performance, it also helps to prevent performing tensions due to competing logics between commercial and social logics inside the organisation, reducing the risk of mission drift. In the case of *Food Waste* the “Lock-step” model was reinforced by the investors (Group discussion 4).

## Requirements

The variable requirements describes whether the requirements on the investor site exceed the internal requirements when it comes to impact metrics and procedures. Furthermore, it looks at the development of the metrics and procedures and on whether they were developed in cooperation between social enterprise and impact investor or were predetermined. In both *Refugee* and *Food Waste* impact metrics are measured on a more specific level internally, than required for the reporting and communication to investors. *Food Waste* reports on the metrics directly related to their impact mission and financial performance which are mainly number of systems installed and food waste savings. Internally even more detailed metrics are used to improve operations and the achieved impact.

“Externally we don't show them as much detail. They are not so interested in categorization for example. But the KPI's around business development, financial performance, number of systems and food waste savings are all the same internally and externally.” (*Food Waste*)

*Refugee* also measures a greater amount of metrics internally than required by investors and even proactively aims to sensitize investors to eventually integrate more qualitative metrics in the impact bond.

“Well each three month I sit with the client. Different municipalities we work for. And then the talk is only about impact. Where the clients mostly focus on the jobs we have created. But we also try to involve them in the other impact we have created and send them the message well these are the important things that you should look after for.” (*Refugee*)

In order to meet the discussed metrics leading to the reimbursement of the private investor, primary the number of refugees who found a job are taken into consideration. Going beyond those quantitative number, according to *Refugee*, up to 90% of the impact they have already occurs before refugees land a job. This is mainly in form of personal development and building up a skill set required for the local job market.

Due to the lower external requirements *Refugee* and *Food Waste* do not face the danger of implementing impact metrics which are not aligned with the core functions of their business. Therefore, there is a low risk of decoupling within these variables since required procedures already existed beforehand and where then adapted by investors.

Looking at the development process of the impact metrics and reporting requirements in the investor / social enterprise relationship both *Refugee* and *Food Waste* developed the procedures jointly with their investors. In the case of *Refugee*, the process was supported by an external organisation specialised in impact measurement to ensure acceptance on both the investor and social enterprise side. This prevented the risk of setting to high requirements, leading to high consumption of resources inside the organisation (Interview *yellow*). In the case of *Food Waste* the existing metrics were only slightly adapted to assure a lock-step model. Specifically, the main KPI driving both impact and financial performance was changed from number of systems installed to amount of food waste saved. This also happened in cooperation between investors and the social enterprise (Group discussion 4).

## Investor Characteristics

Both *Refugee* and *Food Waste* are dealing with a small number of investors making it rather simple to jointly develop the impact metrics and procedures. *Refugee* specifically is only financed through an impact bond. In this constellation the communication is limited to the public agency responsible for the impact bond and the private investors financing the project over the next three years. *Food Waste* is financed primarily through a small number of socially responsible investors and an impact-first venture capital fund assuring alignment on both the financial as well as the impact goals. Both social enterprises described the interaction with investors as easy to manage. Furthermore, in both social enterprises the investors are aligned with the social mission and diversity of investors are low.

“There has been really strong alignment from the investors. I think this is because they are all interested in both the social impact and the environmental impact we generate and the financial impact. They've always been aligned with the way we report.”  
(Interview *Food Waste*)

This makes it easier for both organisations to manage the investors' expectations and avoids being caught up in divergent requirements eventually leading to decoupling.

Both for *Refugee* and *Food Waste* the combination of those variables reduces the risk of decoupling. This being the coordination with few investors rather than many combined with a high internal motivation for measuring impact. Besides higher internal standards for impact metrics than required by investors and a strong cooperation on the topic leading to high alignment in their relationships. This high alignment in terms of impact and social mission averts the risk of decoupling as it does not apply high institutional pressure on the social enterprises.

## 4.2 Organisations showing signs of decoupling

In contrast to *Refugee* and *Food Waste*, the social enterprises *Children* and *Coding* showed different characteristics in the defined variables, leading to clear signs of decoupling. While none of the interviewed social enterprises showed signs of policy-practice decoupling the analyses of *Children* and *Coding* presented evidence of means-end decoupling.

In the case of *Coding* two separate impact measurement processes have been implemented. One with the motivation of ensuring that the social mission is successfully achieved and one which is required by investors in order to receive funding.

“We use our internal impact measurement tools because the impact is part of our mission and the results help us to convey our story and improve the products. Additionally, we have separate impact measurement procedures to secure our funding for the impact bond.” (*Interview Coding*)

This goes hand in hand with Bromley & Powell and their research on means-end decoupling in which they describe that organisations might separate processes of the same nature to focus on their key operations when specific metrics are imposed on them by external institutions (Bromley & Powell, 2012). Therefore, *Coding* must implement a multidimensional measurement system including financial and two separate impact measurement processes.

For *Children* the changing requirements on the investor and donor side are leading to the development of different impact measurement procedures. Therefore, *Children* is confronted with increasing pressure from external stakeholders to secure funding for their projects and divergent requirements due to the high number of investors.

“When we were founded hundred years ago, we did not talk about impact at all. Just in the last couple of years that has become a hot topic for us. So, the money today is more linked to results and proven impact and more detailed information is required by donors and foundations.” (*Interview Children*)

## **KPI's**

Just like the other two social enterprises, *Children* and *Coding* also use KPI's for their impact measurement and overall performance.

“We are just entering a new level of maturity in the company. But we are starting to have regular board meetings and we have a set of key performance indicators for each area of the company.” (*Interview Coding*)

In the case of *Coding* different indicators are used for different parts of the organisation. This has to do with the two different impact and business models they are working with. On the one hand *Coding* offers coding classes for unemployed people with the goal of re-integrating them into the job market. For this sector the proportion of students who find a job after the course serves as the main impact metric. On the other hand, they provide a learning software for schools also related to coding. In this case the measurement of direct impact which likely occurs in form of improved analytical thinking and improved math skills is difficult to implement. Therefore, more quantitative metrics such as time spent on the software, number of children using the software and satisfaction of teachers is measured.

*Children* faces a similar challenge as their projects are aiming to support underprivileged kids with several different programs. Due to the variety of projects the main KPI's are the number of children reached and whenever possible, change of behaviour during the project time. Depending on the specific project and investor other KPI's must be set up.

## **Motivation**

While *Children* also measures impact metrics for their own operations to learn and improve, the main motivation behind the change in their measurement procedures is happening due to external pressure by investors. The investors are mostly private donors, foundations and governments / European institutions. Their investors are more and more looking for clear evidence that their money delivered the desired impact when working with *Children*.

“Yeah the trend is that the money goes to a more social enterprise approach. Of course, all organisations want to change a bit, so they still get money for their programs in the end.” (*Interview Children*)

Due to this pressure the whole organisation tries to adapt to the higher requirements they are currently facing.

“It is more a trend I think. Organisations don't just want to give money. They think, ok there has to be something proven. We don't just give.” (*Interview Children*)

The relationships with investors went from being more trust dependent into a more professionalised direction, in which foundations and corporate companies' hire experts in the field of social impact to assure that their investments deliver the right impact. This is where *Children* experiences difficulties as the organisation is historically very social driven and therefore also the employees have a strong social background and skills on the commercial site are missing.

For *Coding* the motivation is also a mix between internal aspiration and external requirements. While specific metrics are measured internally to improve operations and impact on the coding software for kids', specific metrics and procedures must be met which are mainly imposed by the governmental institute with which the impact bond is being developed.

To a certain degree the impact measurement procedures are internally motivated as they are recognized as part of the social mission and an important factor to communicate the value proposition and theory of change of *Coding*. On the contrary, the procedures and metrics

introduced in the context of the impact bond, to finance the educational part of *Coding*, are mostly implemented due to external requirements by a governmental institution.

“In one way it is part of our mission and then in another way we see that there is access to funding that is related with impact so it kind of makes sense that we kind of align ourselves towards having also those goals to become attractive to impact funding and also to some of these grants like social impact bonds” (*Interview Coding*)

This was further supported during the interview as *Coding* expressed that they would like to be less dependent on those external requirements but to be more able to measure those metrics which internally are regarded as beneficial.

Compared to *Refugee* and *Food Waste* which implemented their metrics and procedures mostly due to internal motivation, *Children* and *Coding* acted upon external pressure for specific metrics and procedures.

## **Requirements**

Looking at the requirements of investors for *Children* and *Coding* the picture is similar to the observations made for the variable motivation. This is especially visible in the case of *Coding* where the impact measurement process related to the impact bond requires an external auditor to verify the accuracy of the results. Furthermore, the process is described as quite bureaucratic and consuming valuable resources which are then missing to “build a good product” (*Interview Coding*).

“We like impact bonds as financial instrument. We think it makes perfect sense on paper. But in practical terms the bureaucracy around makes it kind of difficult to work. So, we want to be less dependent on that. So, with the education business it would be great if we could have government or schools that can pay for our service and not be dependent on an impact measurement to get a bond or a foundation to back this.” (*Interview Coding*)

So, the procedures introduced in the educational part of the organisation can be described as a means-end to secure the funding for the project rather than internally motivated. Especially since internally different metrics, which are aligned with the organisation’s theory of change, are also measured in parallel.

For *Children* it is also evident that the organisation is challenged with increasing requirements for impact measurement making procedures more complex.



“The impact part is harder because it is difficult too. You can describe things but making it really proof that something happened because we were there or because the program took place is hard. And I think donors would like to hear that.” (*Interview Children*)

The complexity might occur due to organisations history as a non-profit organisation relying on personal relationships to secure funding and the fact that today more and more specific impact metrics are required by investors. Additionally, the field in which *Children* operates, namely underprivileged children, makes the measuring procedures more complex and resource intensive. Furthermore, the high number of investors on which *Children* is dependent and the variety of projects lead to diverse requirements making it difficult to develop standard metrics and procedures.

The development of impact procedures is only partly developed jointly with investors in the case of *Children* and *Coding*. For *Children* this process is highly dependent on the type of investor.

“The European union and the local government have their own format that we have to use. But for foundations we also sometimes develop a format together actually.” (*Interview Children*)

To receive funding from official institutions *Children* must strictly follow the provided requirements. For those funding opportunities no jointly development happens which can lead to misalignment between the requirements and organisations operations, constituting a potential risk for decoupling. With foundations and private donors on the other hand, metrics are often developed together to match the needs of both the organisation and investor.

Also, *Coding* must cope with the metrics specified by the institution responsible for the impact bond in order to receive the funding.

„With the social Impact Bonds there are social investors. They invest and then they get reimbursed and the project continues to live when metrics are met. So, every year you need to run the project against those metrics and if you reach the milestones, the investors get reimbursed and the project lives for another year. “ (*Interview Coding*)

In both cases, requirements are further specified by the investor when governmental institutions are involved. More formal procedures must be followed and there is less flexibility to tailor the metrics according to the organisation’s theory of change.

### **Investor Characteristics**

Looking at the Investor Characteristics both *Children* and *Coding* differ from *Refugees* and *Food Waste*. While *Coding* also has few investors on board, *Children* is dependent on a high

number of different investors. While *Food Waste* and *Refugees* are working primarily with private social investors and the government in form of an impact bond only, *Coding* receives funding from both. Even though the number of investors *Coding* depends on is quite low, they are quite diverse and require different metrics. This is visible as the private social investors, which invested in *Coding*, accept the internal impact procedures while the impact bond institution requires different specific procedures as described before.

“With funding from social investors, we have learned that they are ok with the way we measure impact. They are ok with investing in an education company for adults and kids, so they don't require exact kpi's.” (*Interview Coding*)

The challenges for organisation *Children* are lying in the high number of investors. Since *Children* is extremely social oriented with almost no source of profit, they are highly dependent on their investors. Besides the alignment of the impact investors with the social mission of both enterprises is rather low and their investors are despite the high number also diverse in their requirements and expectations. This especially stands out in the case of *Children* as they receive funding from governments, foundations commercial organisations and private donors, all following their own agenda.

The described variables of *Children* and *Coding* present a degree of external pressure both organisations are exposed to. While for *Refugees* and *Food Waste* the alignment on both the impact and commercial side is high this is not the case for *Children* and *Coding*. In order to secure funding, both organisations must adapt logics which are not always aligned with their core business. When external requirements are different from already existing internal procedures additional resources must be committed to fulfil the requirements from investors (Molecke & Pinkse, 2017). Due to the lack of alignment with the organisations social mission the produced results are not integrated back into the operations making the procedures only a means-end to secure funding. Organisations *Refugees* and *Food Waste* in comparison, show how alignment between investors and social enterprise can lead to an optimal solution for both parties. Especially the jointly development of the required metrics assure that internal procedures are utilized, and the degree of complexity matches the available resources of the organisation. Furthermore, the example of organisation *Refugee* shows that aligned metrics and procedures are also possible in the case of impact bonds.

### 4.3 Investors perspective

The interviews with investors were conducted to get insights from the investors perspective to see whether it matches the experience of the interviewed social enterprises. A characteristic which all organisations had in common was that they were “impact first”. Meaning, they would put impact and social mission over financial returns.

“These funds are really impact first funds. And the distinction that I am trying to make is that we will prioritise impact over financial returns.” (*Interview Green*)

Furthermore, all investors showed awareness of decoupling as a phenomenon that could potentially influence the partnership between both organisations. Therefore, all four organisations develop the requirements for impact measurement procedures in cooperation with the social enterprises to ensure that investors needs are aligned with the enterprise’s resources and mission.

“All contracts of the enterprises are completely adapted to the purpose of the enterprises. Because the experience of Collin is that we often try to standardise it. And then we miss the boat.” (*Interview Yellow*)

“So, the reason why we do not have a prescribed or templated metric or measurement indicators is for that reason. It's because we understand the constraints that they have. Because it requires human capital from their site to be allocated to this.” (*Interview Green*)

To assure that the mission of the investor and the enterprise is well aligned, all organisations undertake a detailed screening of the investees. For this, different criteria are used. While *Green* focuses on social enterprises with an environmental impact, *Yellow* focuses on a specific region and *Red* on early stage social enterprises which also receive coaching in addition to the investment.

To secure an aligned strategy in terms of impact measurement and support the social enterprises *Blue*, *Red* and *Yellow* support the enterprises in different ways in the development of the metrics and measurement procedures, since not all social enterprises have the right capabilities to develop them on their own. *Blue* currently started to allocate parts of their grants to develop the impact measurement procedure together with a specialist to avoid bringing the enterprises into a situation where they must choose between allocating the investment to the daily operation or the impact measurement. And for some investments even no impact measurement is required as *Blue* describes trust to be one of their success factors.

“Sometimes just let it go. Just trust and accept that the organisation will use the grants well which they have received to the project and that you will maybe not always be able to measure impact at a very detailed level.” (*Interview Blue*)

*Yellow* follows a similar procedure where they provide a team of experts during the first phase of the investment which in repeating meetings supports the social enterprises. In that way they can assure that the metrics of the enterprises are not only aligned with their own social mission but are of high quality and incorporate the procedures that were already in place beforehand.

Overall the investor interviews showed that there are investors with awareness for decoupling that do not impose standardised guidelines for impact measurement onto the social enterprises but rather invest time and money to customize the procedures to each investment.

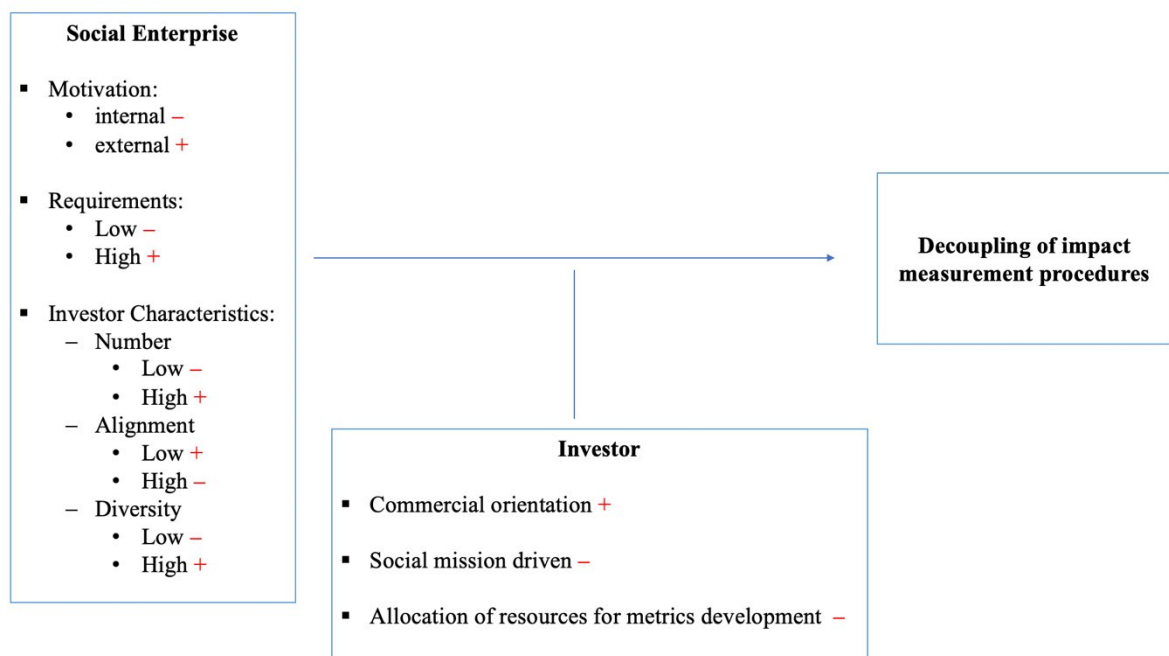
While all the interviewed organisations saw this as their responsibility this cannot be generalized for all impact investors. For example, corporate foundations potentially require more standardized metrics and reports as they have an overall impact goal for their organisation on which they must report to the board. This allows less flexibility since the impact of all projects must be consolidated and reported. This goes hand in hand with a more commercial orientation of this organisations. During the discussion rounds more commercial oriented investors expressed that they see the responsibility on the social enterprise site to fulfil their requirements. In contrast to the interviewed social mission driven investors they did not see the need to customize requirements to different social enterprises. Also, the prioritisation between impact and financial results was favoured towards financial results.

## 5. Discussion

The aim of this research is to extend the research on the concept of decoupling regarding impact measurement procedures in social enterprises. Therefore, the research question is: “**What factors lead to decoupling of impact measurement procedures in the relationship between social enterprises and impact investors?**”

The findings showed that investors can have strong influence on the impact measurement procedures of social enterprises, eventually leading to decoupling. Two of the four interviewed social enterprises showed signs of means-end decoupling. Both implemented impact measurement procedures in order to gain access to resources due to external pressure by investors. While procedures were implemented, the results were not reflected into the organisations operations because they were not seen as beneficial or because the organisation already had different procedures with different metrics in place, which were better aligned with their social mission.

Throughout the interviews the variables presented in the following model were identified which either reduce or increase the risk of decoupling.



*Figure 4 Process Model*

This model helps both social enterprises and impact investors to assess and reduce the risk of decoupling. Impact investors should seek for social enterprises as investees that show internal motivation to measure impact metrics and not implement impact procedures solely due to

external pressure. Furthermore, impact investors can reduce the risk of decoupling by jointly developing the impact metrics with the social enterprise to ensure alignment with the enterprises social mission. If possible, existing procedures should be analysed and integrated to avoid measuring different metrics in parallel. Additionally, dedicated resources in form of money or expertise can be provided for the development of impact measurement procedures to ensure that no conflict of interest between the use of resources for daily operations and impact measurement happens. The interviews also showed that the complexity of metrics required by stakeholders can have an influence on the risk of decoupling. Especially when external requirements exceed the internal requirements of impact measurement, means-end decoupling might occur. Besides, the number of investors funding the enterprise influence the risk of decoupling. The more investors an enterprise has, the more diverse the requirements for impact metrics tend to be due to missing standards in this field (Ebrahim et al., 2014).

On the social enterprise site, the model helps to choose investors that reduce the risk of decoupling by aligning expectations. As the interview showed there is awareness for decoupling in the impact investing sector and social enterprises should make use of it. Therefore, organisations should aim for impact first investors that put the social mission first instead of profit-oriented investors. Besides impact investors that provide resources for the development of impact measurement procedures should be favoured over ones that require specific metrics which are not adapted or aligned with the enterprises social mission.

Following the model, it should be possible for social enterprises as well as impact investors to reduce the risk of decoupling by aligning procedures with the social mission of the enterprise, to generate positive impact for beneficiaries and ensure that the investments create the desired impact.

## 6. Contribution and Managerial Implications

This thesis was designed to answer the research question **“What drivers lead to decoupling of impact measurement procedures in the relationship between social enterprises and impact investors?”** Therefore, I conducted interviews with both Social Enterprises and Impact Investors. I analysed social enterprises on whether they show signs of decoupling and identified drivers leading to decoupling. The collected data shows that both social enterprises and impact investors can have an influence on the risk of decoupling. The main drivers I identified are the motivation behind impact measurement procedures, the requirements related to those and the characteristics of the investors. The following paragraphs describe the contribution to the academic research as well as managerial implications for social enterprises and impact investors.

Based on the findings presented in the chapter four, I contribute to the existing literature of social enterprises and decoupling on three different levels.

Firstly, I contribute to the research on decoupling by identifying the type of decoupling social enterprises are more likely to occur in. While Bromley and Powell (Bromley & Powell, 2012) divide decoupling into policy-practice and means-end decoupling, the social enterprises in this thesis were rather prone to means-end decoupling. The findings of this thesis show that policy-practice decoupling is rather unlikely to occur in social enterprises due to the strong and transparent relationships between social enterprises and impact investors. This strong relationship between impact investors and social enterprises is also a boundary condition of the thesis. Therefore, the findings cannot be applied to any investor / organisation relationship but rather to those with strong relationships, which make policy-practice decoupling difficult to perform. Furthermore, the requirements of impact investors on impact measurement and impact reports provide small room for symbolic actions as performed in policy- practice decoupling since it would be rather quickly noticed by investors. Instead social enterprises are more likely to occur in means-end decoupling in which formal requirements by impact investors are implemented and carried out, but are not aligned with the operations and outcomes of the social enterprise (Bromley & Powell, 2012). Drivers leading to the decoupling are explained in the following paragraphs.

Secondly my thesis contributes to academic research by analysing drivers for decoupling from a social enterprise perspective. While Ebrahim et al. pointed out the effects of tensions between social and commercial activities as drivers for decoupling this thesis deals with the topic looking

primarily at the impact measurement procedures (Ebrahim et al., 2014). According to this study social enterprises tend to occur in means-end decoupling when the complexity of impact measurement procedures are high and external requirements are misaligned with internal goals. Often discussed institutional pressure in the research of decoupling (Bromley & Powell, 2012) is present in the analysed enterprises in the form of requirements for impact measurement procedures. In order to secure funding, social enterprises are obliged to implement required procedures even though metrics might not be aligned with their social mission. Furthermore the analysed drivers for decoupling can be related to the research on performing tensions (Smith et al., 2013). Smith et al. identify divergent metrics and goals as the main drivers for performing tensions which go hand in hand with the developed variables in my thesis. Therefore, performing tensions specifically tend to increase the risk of decoupling. Of course, this does not mean that other tensions such as belonging, organizing and learning tensions cannot have an influence on decoupling in social enterprises, but those were not studied in this thesis.

Thirdly the thesis contributes to research by showing the influence impact investors can have on the risk of decoupling through their social or commercial orientation as well as their actions. While the current research points out that stakeholder might impose pressure on social enterprises by requiring diverse metrics and eventually limiting access to funding (Ebrahim et al., 2014) this thesis shows that there is awareness on this topic on investor side. Especially social driven investors, as the ones interviewed, try to counter this phenomena of imposing pressure, which eventually leads to decoupling (Bromley & Powell, 2012), by aligning their requirements not only with the social mission of the enterprise but also their capabilities. Therefore, social mission driven impact investors ask for KPI's that are in line with the social mission and not only work as proof for the investor but also reinforce the operations of the enterprise. Since they are motivated to reach the desired impact, they support social enterprises not only through their investment but eventually also with know-how and human resources. This thesis showed that a strong alignment between the social mission of the social enterprise and the impact investor really encourages additional support through investors leading to reduced risk for decoupling. This applies especially when requirements are adjusted to the development stage of the social enterprise, their capabilities and resources.

Taking the model presented in chapter five into consideration alongside with the findings of this thesis there are a few managerial implications for both entrepreneurs of social enterprises as well as impact investors. Both can use the presented model to asses current and future relationships with their investors or investees to reduce the risk of decoupling.



Starting with impact investors, it is important that they do not only focus on technicalities such as “what metrics are used” and “how transparent are they about their processes” in the screening process. Instead they should do a comprehensive study of the social enterprises including the variables presented in my model. By analysing the existing procedures and assessing the enterprises motivation for impact measurement the investor can evaluate the potential risk of decoupling and adjust their own requirements to reduce them. By doing so investors can find common ground on which the relationship can be based on and if necessary, refrain from investing in the enterprise. Besides analysing risk factors for decoupling, a thorough screening process can also help in identifying risk factors for mission drift as well. So overall the developed model does not only give guidance for the screening process of the social enterprises, but it also helps to choose organisations that are aligned with the own social mission and therefore engage in successful and impactful partnerships.

Moreover, the model can also help social enterprises in choosing investors. By assessing the degree to which an investor is commercial or social oriented social enterprises can assure alignment with their social mission and therefore reduce the risk of decoupling. By aligning investor and organisation the required impact measurement procedures are more likely to be beneficial for the organisations operations and therefore also contribute to their impact. Furthermore, depending on the internal capabilities, social enterprises should look for impact investors that provide dedicated resources to the development of impact measurement procedures and metrics in form of financial and human resources. By doing so, social enterprises can assure that metrics and procedures are not only aligned with the requirements of the impact investor but also match the own social mission.

## 7. Limitations and Conclusion

This thesis was set up to analyse decoupling of impact measurement procedures in social enterprises and to answer the question **“What drivers lead to decoupling of impact measurement procedures in the relationship between social enterprises and impact investors?”**. The findings show that both social enterprises and impact investors have an influence on whether social enterprises occur in decoupling and that due to the strong relationships between social enterprises and impact investors means-end decoupling is more likely to occur compared to policy-end decoupling.

As drivers that influence the risk of decoupling the findings show that especially the motivation behind impact measurement procedures, the complexity of the same and the investor characteristics have an impact on the risk of decoupling. To minimise the risk, social enterprises should show internal motivation to measure their impact. Furthermore, the requirements for procedures and impact reports should be co-developed and match not only their capabilities but also available resources. Besides social enterprises should aim for impact investors which are social mission driven and are willing to support the process of setting up measurement procedures.

This thesis comes with two limitations. The first limitation is related to the impact investor interviews. By coincidence all interviewed impact investors were social mission driven and clearly impact first investors. Data from more commercial oriented impact investors was only collected in the group discussions and presentations during the conferences I visited. While they helped in forming an overall understanding of the role of impact investors, they did not provide the degree of detail which the interviews provided. For future research I would therefore suggest to further validate my results by interviewing impact investors with a higher commercial orientation.

The second limitation is the variety of interview partners. While it allowed me to get a broad understanding of the field of social enterprises and potential drivers for decoupling which was necessary to build a comprehensive model, it did not allow to identify the main drivers for specific industries or legal forms of social enterprises. Therefore, a quantitative study could help to analyse the actual impact of the identified drivers in order to say which of them are more critical.

Overall, I believe that the results of this study can help social enterprises and impact investors to better align their relationships, decrease the risk of decoupling and therefore utilize their resources for their social mission and hopefully create greater impact in the long term.

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# Appendix

## Appendix A Interview Guideline Social Enterprise

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Interview Form: Semi Structured

Length: 30 – 45 minutes

Objective: Get insights on performance measurement requirements from an investor perspective. What do they require from social enterprises and how do they see the relationship with them.

---

### **Introduction:**

First of all, thank you for taking the time to talk with me. I am conducting those interviews with investors and social enterprises as part of my master thesis. The thesis will be about performance measurement of social enterprises and the relationship between the investors and the social enterprises. I will explain the topic more detailed after the interview.

Is it ok if I record the Interview?

Yes:

No:

### **Questions:**

1. How do you measure your performance (financial / impact)?
2. What is the goal of managing your financial performance / impact?
3. Do you use KPI's for financial performance / impact?



4. Do you measure different criteria for internal and external use?
5. How do you communicate your results?
6. Who do you communicate your results to?
7. Why do you communicate your results?
8. How did the process of measurement change over the lifetime of the enterprise?
  - a. Why did it change?
  - b. How did the communication process change?
9. How do you use the results in your organisation?
10. Do you define actions based on the impact results?

**Conclusion:** Thank you for conducting the interview with me. Those were all the questions I wanted to ask. Do you have any more comments you would like to make? If you like I can send you the thesis when I am finished for you to read.

## Appendix B Interview Guideline Impact Investor

---

Interview Form: Semi Structured

Length: 30 – 45 minutes

Objective: Get insights on performance measurement requirements from an investor perspective. What do they require from social enterprises and how do they see the relationship with them.

---

### **Introduction:**

First of all, thank you for taking the time to talk with me. I am conducting those interviews with investors and social enterprises as part of my master thesis. The thesis will be about performance measurement of social enterprises and the relationship between the investors and the social enterprises. I will explain the topic more detailed after the interview.

Is it ok if I record the Interview?

Yes:

No:

### **Questions:**

1. How do you measure your impact for the overall organization?
2. What is your impact goal for your organization?
3. Do you have standardised guidelines for performance management for social enterprises?
4. How do they look like?

5. How do you use them?
6. Are you using KPI's?
7. What is your approach for new enterprises? Do you first try to utilize their internal measurement tools, or do you make them use yours?
8. What happens if the company does not comply with your KPI guidelines?
9. How do you verify the impact reports you receive?
10. What are the consequences if impact goals are not reached?

**Conclusion:**

Thank you for conducting the interview with me. Those were all the questions I wanted to ask. Do you have any more comments you would like to make? If you like I can send you the thesis when I am finished for you to read

## Appendix C Coding example

The screenshot displays the MAXDictio software interface. The top menu bar includes: Start, Import, Codes, Memos, Variablen, Analyse, Mixed Methods, Visual Tools, Reports, and MAXDictio. Below the menu is a toolbar with icons for various functions like 'Neues Projekt', 'Projekt öffnen', 'Liste der Dokumente', 'Liste der Codes', 'Dokument-Browser', 'Liste der codierten Segmente', 'Logbuch', 'Teamwork', 'Projekte zusammenführen', 'Projekt speichern unter', 'Projekt anonymisiert speichern', 'Projekt aus aktivierten Dokumenten', 'Externe Dateien', and 'Daten archivieren'.

The main workspace is divided into three panes:

- Liste der Dokumente:** A tree view showing document categories and counts. 'Refugees' is highlighted with a count of 28.
- Liste der Codes:** A tree view showing code categories and counts. 'Impact is the reason for the existence of the organisation' is highlighted with a count of 6.
- Dokument-Browser: Refugees:** A text editor showing a transcript of a conversation. The text includes:
 

I: Yeah. Regarding your impact measurement and the results of that. Why do you communicate your results?

B: Well firstly we exist because of our impact. We are impact first, impact drive. This is the reason why we exist. So this is why we think it is really important to communicate it. It would be the same if a for example big company like Shell wouldn't communicate their profits. Because those are the things they are proud of. And that's also why it is so important for us to measure our impact because that's the thing we are proud of and the reason why we come out of bed in the morning. So it's. You can see it like the way Shell communicates their financial results. That's the same way why it is important for us to communicate our impact.

I: Is it also required on the investor side? On a

B: Well now in the end the investment is linked towards the investment we create in a way that we get an investment for the three years linked to impact goals. So for example we help 200 refugees in the coming three years finding a job. And this is the investment we need to create the impact. And the municipality pays of the investment based on the impact we have created. So to be able to pay back these investments they have to know the amount of impact we have created. So for example if we get a thousand euros for a refugee that finds a job and we set our goal on 200 refugees. We get an investments of 200000€. For each refugee that finds a job the municipality pays of a thousand euros towards the investment. Plus a little interest. So that are directly linked.

I: Do you also stay in contact with the private investors about the results and do you communicate it to them?

Liste der Codes		
> ● Commercial Orientation		11
> ● Investor Characteristics		20
✓ ● Motivation		0
✓ ● Improvement of operations		0
● Alignment of impact and financial goals		7
● Impact measurement as improvement process		8
✓ ● Funding		0
● Additional impact metrics to match investors requi...		5
● Higher connection between impact and investment		4
● Investors want to be sure the investment delivers t...		4
● Impact report required as proof of work		7
✓ ● Social Mission		0
● Impact first		6
● Impact is the reason for the existence of the orga...		6
> ● Requirements		51